

Report
of the
Examination of
Dental Protection Plan, Inc.
Milwaukee, Wisconsin
As of December 31, 2000

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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August 10, 2001

Honorable Connie L. O'Connell
Commissioner of Insurance
Madison, Wisconsin

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

DENTAL PROTECTION PLAN, INC.
Milwaukee, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Dental Protection Plan, Inc (the LSHO or DPPI) was conducted in 1996 as of December 31, 1995. The current examination covered the intervening period ending December 31, 2000, and included a review of such 2001 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the LSHO's operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Provider Contracts
- Territory and Plan of Operations
- Growth of the LSHO
- Financial Statements
- Accounts and Records
- Data Processing
- Enrollee Complaint Procedure
- Underwriting

Emphasis was placed on the audit of those areas of the LSHO's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the LSHO to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the LSHO's operations is contained in the examination work papers.

The plan has been granted an exemption from the financial audit requirements of s. Ins 50.05, Wis. Adm. Code.

II. HISTORY AND PLAN OF OPERATION

DPPI can be described as a nonprofit network model limited service health organization (LSHO) insurer. A LSHO insurer is defined by s. 609.01 (3), Wis. Stat., as ". . . a health care plan offered by an organization established under ch. 185, 611, 613, or 614 or issued a certificate of authority under ch. 618 that makes available to its enrolled participants, in consideration for predetermined fixed payments, a limited range of health care services performed by providers selected by the organization." Under the network model, the LSHO provides care through contracts with clinics and otherwise independent physicians operating out of their separate offices. LSHOs compete with traditional fee-for-service health care delivery.

The LSHO was incorporated March 27, 1987 and commenced business January 19, 1988. DPPI has no affiliated companies. The administration of DPPI is conducted at the West Allis Dental Care Clinic.

Subscribers enroll in the DPPI coverage plan for a yearly fee. Current fees are \$30 for single and \$40 for family coverage. The plan claims that anyone can participate in the plan. The DPPI policy states that there are no exclusions for preexisting conditions.

DPPI currently enrolls individual subscribers and families only. There are no group contracts. DPPI has two agents. Agents receive no commission. Milwaukee is DPPI's current service area. There are no plans to broaden the current service area.

To receive benefits, an enrollee must use a designated DPPI provider. DPPI currently contracts with eleven primary care dentists. One of the dentists is still listed as a primary care dentist, however he is no longer accepting new patients affiliated with the plan. DPPI currently contracts with one specialist.

DPPI coverage is a 20% discount on fees regularly charged. The following is a comprehensive list of benefits DPPI offers:

- Diagnostic
- Preventive
- Ancillary
- Restorative
- Oral, excluding Maxillofacial Surgery
- Endodontics
- Periodontics
- Prosthodontics
- Orthodontics

DPPI enrollees oftentimes carry alternative, primary dental coverage through another health provider. In these instances, DPPI coverage is limited to the amount exceeding the primary coverage. This may be less than the 20% stated above. For example, if the primary insurer covers 90% of the charges, DPPI's portion is limited to 10%.

DPPI waives \$25 of the annual deductible, if any, for enrollees with alternate primary dental coverage. Finally, DPPI waives 100% of service fees above "usual and customary" charges (determined for Metropolitan Milwaukee), to prevent providers' "overbilling."

Providers agree to bill enrollees for standard dental service fees, less amounts covered under the DPPI policy and other policy coverage. There is no provider reimbursement made by DPPI. The aggregate maximum benefit under the DPPI policy is unlimited.

The LSHO currently contracts with the following clinics and independent providers:

Clinics:

- West Allis Dental Care
- Bay View Dental Care
- Accommodent Dental Associates
- Cohn Dental Associates
- Family Dental Center

Independent Providers:

- William Fink, D.D.S.
- Scott N. Levin, D.D.S.
- Paul F. Cotney, D.D.S.
- Michael Laska, D.D.S.

The contracts include hold-harmless provisions for the protection of policyholders. The provider agrees to charge policyholders fees that are unusual and customary for services

rendered and also agrees to accept payment for services provided that are usual and customary less the total of any benefits the policyholder is entitled to. The provider contracts have a continuous term, and may be terminated by either party with 30 days' advance written notice. Similar contracts are executed for both primary care providers and specialists.

DPPI has made provisions in provider agreements for the inspection of its primary care providers' operations. No inspections have been made to date. There is also a procedure whereby enrollees' grievances receive DPPI's acknowledgment and review. To date there were two complaints logged, however these complaints did not require any action from the grievance committee and have since been resolved.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of five members. Directors are elected to serve a three-year term. Officers for the board are elected at the board's annual meeting. The board members currently receive \$125 annually for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
• Douglas J. Persich, Menomonee Falls	Dentist	April, 2002
• Robert Popp, Greendale	Dental Lab Owner	April, 2002
• Charles Konkol, Greenfield	Accountant	April, 2002
• Barbara Pipia, Brookfield	Events Coordinator	April, 2002
• William Fink, River Hills	Dentist	April, 2002

Officers of the LSHO

The officers appointed by the board of directors and serving at the time of this examination are as follows:

Name	Office	2000 Compensation
Douglas J. Persich	President and Treasurer	\$33,175
Charles Konkol	Vice President	0
Robert Popp	Secretary	0

Committees of the Board

The LSHO's bylaws allow for the formation of certain committees by the board of directors. DPPI has appointed a grievance committee for the purpose of reviewing members' complaints. The grievance committee at the time of the examination consists of the following:

Douglas Persich
Robert Popp
Charles Konkol

The only other committee is the quality assurance committee. This committee is responsible for reviewing and addressing all quality assurance information and concerns. The quality assurance committee at the time of the examination consists of the following:

Douglas Persich
Robert Popp
William Fink
James Sherman

Employees

DPPI hires its own employees. At the time of the examination, DPPI employees, other than officers, consisted of the office manager. This employee also works for West Allis Dental Care, where DPPI is located and is compensated by both DPPI and West Allis Dental Care.

Financial Requirements

The financial requirements for an LSHO under s. Ins 3.52, Wis. Adm. Code, are as follows:

	Amount Required
1. Minimum capital or permanent surplus	Not less than \$75,000
2. Security deposit	Each LSHO is required to maintain a deposit of securities with the state treasurer or an acceptable letter of credit on file with the Commissioner's office. The amount of the deposit or letter of credit shall not be less than \$75,000. The letter of credit must be payable to the Commissioner whenever liquidation or rehabilitation proceedings are initiated against the LSHO.
3. Compulsory surplus	Not less than the greater of: 3% of the premiums earned by the LSHO in the previous 12 months or \$75,000 The Commissioner may accept the deposit or letter of credit under par. 2. to satisfy the compulsory surplus requirement if the LSHO demonstrates to the satisfaction of the Commissioner that all risk for loss has been transferred to the providers.
4. Security surplus	The LSHO should maintain a security surplus to provide an ample margin of safety and clearly assure a sound operation. The security surplus should not be less than 110% of compulsory surplus.
5. Operating funds	Funds sufficient to finance any operating deficits in the business and to prevent impairment of the insurer's initial capital or permanent surplus or its compulsory surplus.

The LSHO has met these requirements by transferring the risk of loss to providers and by obtaining a letter of credit of \$105,000.

The LSHO is provided with corporate insurance coverage under the contracts listed below:

Type of Coverage		Policy Limits
Professional liability		\$2 million, each claim 3 million, aggregate
General Liability		2 million, each occurrence 3 million, aggregate
Products Hazard		2 million, aggregate
Fiduciary Liability		100,000 each claim
Employee Dishonesty:	Money/Securities	10,000
	Benefit Plans	15,000
Workers Compensation and Employers Liability:	Bodily injury by accident	100,000 each accident
	Bodily injury by disease	500,000 policy limit
	Bodily injury by disease	100,000 each employee

The above coverages are offered through an insurer licensed in Wisconsin.

V. FINANCIAL DATA

The following financial statements reflect the financial condition of the LSHO as reported in the December 31, 2000, annual statement to the commissioner of insurance. Also included in this section are schedules, which reflect the growth of the LSHO for the period under examination. Adjustments made as a result of the examination is noted at the end of this section in the area captioned "Reconciliation of Net Worth per Examination."

Dental Protection Plan, Inc.
Assets, Liabilities, and Net Worth
As of December 31, 2000

Assets:

Cash	\$ (256)	
Total Assets		<u>\$ (256)</u>

Liabilities:

Accounts payable	\$ 76	
Unearned premiums	27,588	
Total Liabilities		28,564

Net Worth:

Retained earnings/fund balance	(27,567)	
Current year profit or loss	<u>(1,253)</u>	
Total net worth		<u>(28,820)</u>
Total Liabilities and Net Worth		<u>\$ (256)</u>

**Dental Protection Plan, Inc.
Statement of Revenue and Expenses
For the Year 2000**

Revenues

Premium	\$61,705
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Administrative Expenses:

Compensation	33,175	
Occupancy, depreciation, and amortization	4,200	
Marketing	1,309	
Insurance, except on real estate	10,867	
Payroll tax, supplies, and utilities	7,776	
Other	<u>5,631</u>	
Total administrative expenses		<u>62,958</u>

Net Loss	<u>\$ (1,253)</u>
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**Dental Protection Plan, Inc.
Statement of Net Worth
As of December 31, 2000**

Net worth, beginning of year	\$(26,084)
Net loss	(1,253)
Net change in unearned premium	<u>(1,483)</u>
Net worth, end of year	<u>\$(28,820)</u>

Growth of LSHO

The following schedules reflect the growth of the LSHO during the examination period.

Year	Assets	Liabilities	Net Worth	Premium Earned	Administrative Expenses Incurred	Net Income/ (Loss)
1996	\$(404)	\$28,309	\$(28,434)	\$54,110	\$54,791	\$ (681)
1997	10	30,041	(30,031)	56,900	56,487	412
1998	(69)	26,399	(26,468)	57,285	57,362	(77)
1999	127	26,210	(26,084)	59,486	59,291	194
2000	(256)	28,564	(28,820)	61,705	62,958	(1,253)

Enrollment for the years under examination:

Year	Members
1996	3,462
1997	3,287
1998	3,221
1999	2,046
2000	2,155

Reconciliation of Net Worth per Examination

The examination made no adjustments to the LSHO's net worth as reported on its December 31, 2000 annual statement.

VI. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were eleven specific comments and recommendations in the previous examination report. Six of the recommendations were based on financial information and the other five were from market conduct. Comments and recommendations contained in the last examination report and actions taken by the LSHO are as follows:

Financial

1. Conflict of Interest—It is recommended that the plan adopt a procedure for the annual completion of a conflict of interest questionnaire by the appropriate persons, for the disclosure of potential conflicts of interest.
Action—Compliance
2. Hold Harmless—It is recommended that the plan clarify its provider contracts by adding “hold harmless” provisions.
Action—Compliance
3. Unearned Premium—It is recommended that the plan report an estimate of its liability for unearned premium.
Action—Compliance
4. Net Deficit—It is recommended that the plan notify the Commissioner regarding steps that the plan will take to repair net worth to a positive position.
Action—Compliance
5. Enrollment Data—It is recommended that the plan evaluate alternative data base management software for the purpose of maintaining ready and reliable membership information.
Action—Compliance
6. Office Lease—It is recommended that the plan execute a written lease for office space.
Action—Compliance

Market Conduct

1. Policy Form Filings—It is recommended that the plan revise and resubmit its policy form (POL103087) to OCI for review and approval within 90 days of the adoption of the examination report so that it complies with s. Ins 3.52 (10) (c), (d), and (e), Wis. Adm. Code.

Action—Compliance

2. Provider Agreements—It is recommended that the plan revise its provider agreements and submit to OCI for review within 90 days of the adoption of the examination report a copy of amended provider agreements which include language requiring the provider to identify complaints and grievances and to forward these to the plan for recording and resolution as required by s. Ins. 3.52 (10) (g) 2, Wis. Adm. Code.

Action—Compliance

3. Marketing—It is recommended that the plan maintain an advertising file that includes its plan brochures and any future advertisements as required by s. Ins 3.27 (28), Wis. Adm. Code.

Action—Compliance

4. Grievances and Complaints—It is recommended that the plan develop and submit to OCI within three months of the adoption of the examination report an internal complaint procedure to identify, record, and resolve complaints and advise providers of the procedure pursuant to the requirements in s. Ins 3.52 (10) (g), Wis. Adm. Code.

Action—Compliance

5. Grievances and Complaints—It is recommended that the plan maintain in a central location all records on complaints in a manner that can be reviewed by examiners at the time of the examination as required by s. Ins 3.52 (10) (g) 4, Wis. Adm. Code.

Action—Compliance

Summary of Current Examination Results

The company included as a part of surplus the change in unearned premium in the amount of \$1,483. This amount should have been included in operating expenses, and as a result would have brought the total net loss to \$2,736. While it is not necessary for the company to refile the 2000 annual statement, it is recommended that the company properly fill out the Underwriting and Investments Exhibit Part 1 according to the Annual Statement Instructions.

As a result of the prior exam, the company has been making an estimate for unearned premium. This estimate has caused the company to experience a negative net worth the last five years and a net loss in three out of the last five years. The company has increased its letter of credit to be in compliance with statutory guidelines. It is recommended that the company submit a long-term plan to the Commissioner outlining the steps the company will take to repair net worth to a positive position.

VII. CONCLUSION

Dental Protection Plan, Inc. is a nonprofit network model limited service health organization (LSHO) serving the Milwaukee area. There were two recommendations and no adjustments to surplus as a result of this examination. The company complied with all prior examination recommendations.

Enrollment has declined approximately 60% in the past five years. The company had net losses in 1996, 1998, and 2000. There are currently 11 primary care dentists and one specialist providing DPPI dental care plan benefits for enrollees in the Milwaukee area. The company has no plans for enrollment, provider, or service area changes.

Annual charges are \$30 for single and \$40 for family dental coverage. These rates have not changed from the prior examination. Coverage is a 20% discount on a comprehensive list of dental procedures.

VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 17 - It is recommended that the company properly fill out the Underwriting and Investments Exhibit Part 1 according to Annual Statement Instructions.
2. Page 17 - It is recommended that the company submit a long-term plan to the Commissioner outlining the steps the company will take to repair net worth to a positive position.

IX. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the LSHO are acknowledged.

In addition to the undersigned, the following representative of the Office of the Commissioner of Insurance, state of Wisconsin, participated in the examination:

Name	Title
Don Gasser	Examiner

Respectfully submitted,

Sonja M. Dedrick
Examiner-in-Charge